KENT ECONOMIC
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INSTITUTE

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KEDI ECONOMIC SURVEY

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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The long-term projection by this Institute remains unchanged. The general outlook for the last part of this year and for the years through 1985 follows:

1980: modest growth in the fourth quarter,

1981: slow growth for most of the year with a faster rate in the last months,

1982: economic activities will continue improving but still be about average,

1983: significant growth,

1984: some slowdown (A "Brave New World" is not foreseen.)

1985: return to a more normal level of economic activity.

Concerning the tax package, the assumption of any cut during this year had been dropped here months ago. It is now more certain that no such action will take effect during 1980. Congress is scheduled to adjourn in early October, so there is hardly time to pass any tax cut. Also, the White House does not want to push for any election-year cut that makes calm, reasonable legislation less likely -- or so they say.

It has been assumed here for quite some time that there would be a major tax cut in 1981. That is now becoming a reality. The most recently announced

proposal by the Administration in the last week of August was for an "economic renewal" package of $ 30 billion, including a tax cut of roughly $ 27 billion which would benefit business a bit more than individuals according to preliminary reports. The KEDI assumption had been that taxes would be cut by $ 10 billion for companies, and by $ 20 billion for individuals. That was in the ball park of the study of the Joint Economic Committee of Congress (the Bentsen plan). In the Senate Finance Committee, both the Republicans and the majority Democrats were happy to combine forces to push for a tax cut. Tax reductions for individuals amounted to about $ 22 billion in this plan.

The proposal also included much faster rates of tax write-offs for investment by businesses in plants and equipment. Roughly $ 10 billion would be chopped off business taxes by the Bensten plan.

Carter's proposal is seen here as being on the right track. The $ 15 billion that Carter offers to businesses is seen here as a positive step that will benefit that area starting in 1981 and gaining momentum in the following years. However, it would be better if the consumer side of the economy got a bigger piece of the pie to help compensate for the bite that the gains in social security taxes will be taking and the costs of "bracket creep" in income tax payments. Those two together will add about $ 20 billion to consumer bills next year. The Carter tax cut of $ 12 billion still leaves the average citizen in a bind. A tax cut in an amount closer to $ 20 billion would lessen that bind and also provide a bit more energy to our consumer-oriented economy.

Using the KEDI original proposal yielded a 1981 year employment of 104 million and an additional $ 43 billion in GNP. Carter's late, little plan, according to the Administration, would yield 101 million employed and an added $ 51 billion in GNP. That cannot be since one cannot expect any drastic increase in productivity in the next year. It just won't fly. Employment will be higher than that and growth not quite that much, according to calculations here using Carter's proposal.

KEDI's calculations as to December, 1981 prices and unemployment as compared to the year-earlier figures are not the same as those of the Administration. The predictions for GNP are not as far apart. These estimates assume enactment of the tax proposals.

Percentage change 1980 to 1981

	Administration	KEDI
GNP, const. $	+3.6	+3.4
Consumer prices in Dec. 1981	+10.5	+11.7
Unemployment rate, in Dec. 1981	8.1	6.7

As can be seen, KEDI's estimate here show inflation a bit higher, unemployment, quite a bit lower, and a somewhat lower rate of growth when compared to estimate for the economy by the Administration. Any proposal must be passed within the first two months of 1981 in order to affect the economic scene. It is very likely that quick action will be taken to make the cuts realities.

This Institute has been stating that interest rates had already reached

their low point and would begin to move in an upward direction again. Many other forecasters were predicting further drops. KEDI has been shown to be on the right track as the prime rate went up in late August. For the majority of banks, it was in the 10.45 to 11 percent range, and indications are that interest rates will keep increasing.

KEDI's forecast is highlighted on the following page, Table 1.0.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the July, 1980, the changes concern the Assumptions No. 6 and 8.

1. In 1980, approximately 95 % of the demand for oil in this country will be met. In 1981 all but basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40, in 1982, to $46 per barrel, and in 1983, to $56 per barrel.

2. It is still too current to develop a longer-lasting assumption for the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1979	1980	1981	1985
Gross National Product	bil. const. 72 $	1431.7	1420.8	1445.6	1701.3
Index of Industrial Production	1967 =100	152.2	146.6	150.8	171.2
Capacity Utilization	%	85.7	79.1	82.3	87.0
Unemployment Rate	%	5.9	7.5	7.2	6.1
Private Housing Starts	mil. units	1.721	1.189	1.384	1.950
Car Sales	mil. units	10.8	8.2	9.7	12.3
Implicit GNP Price Deflator	1972 =100	165.5	180.7	198.3	283.1
Consumer Price Index	1967 =100	217.5	247.3	273.6	398.4
Producer Price Index	1967 =100	236.2	270.4	301.9	421.6
Federal Deficit	bil. $	-11.2	-42.9	-46.0	-21.0
Personal Income	bil. $	1924.2	2099.7	2344.3	3351.8
Prime Rate	%	12.76	13.68	11.64	10.16
Mortgage Rate	%	10.60	12.66	11.41	10.08
Currency plus Demand Deposits	bil. $	363.8	380.2	411.6	626.8
Commercial and Industrial Loans	bil. $	290.5	306.9	329.5	509.1

3. In the summer, no more tightening in fiscal and monetary policies will occur. The Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general. In the last months of this year, some tightening of monetary and fiscal policies is expected.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more orchestrated anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly corn, soybeans, cotton spring wheat, winter wheat and some other crops have been further reduced.

7. It is projected here that the rates of growth in 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	2.8%	2.6%	2.9%
Italy	1.9	1.9	2.0
Japan	1.7	1.9	2.0
Great Britain	1.7	1.8	2.1
France	2.0	2.2	2.3

8. Last month the data for the forecast for 1981 and beyond were changed to include a tax cut of $ 30 billion which will take effect in 1981.

1.1 REAL GROWTH

(Table 1.1 on page 12)

As compared with the previous forecast, there are only minor changes in the current one, except for corporate profits. The projection for recovery from the downturn starting the last quarter of this year and gradual growth of a modest scale during 1981 is maintained. That in itself is good news.

There is more good news. Leading economic indicators showed a gain of 2.5 percent in June and 4.6 percent in July. They were the first and second increases in a year. Commerce Secretary Philip Klutznick was moved to express the view that perhaps the low point of the downturn was reached earlier than many expected. He did indicate that output would not start to expand right away. For one thing, inventories need to be reduced. The Index of Leading Economic Indicators has less than a grand rating when it comes to being used as a tool in forecasting. Still, it does deserve some credit and mention.

Secondly, the trade gap was less wide in the second quarter of this year. Oil conservation and lessened economic activity cut into imports. This deficit, measured on a balance-of-payments basis was a seasonally adjusted $ 7.7 billion in the second quarter as compared to $ 10.9 billion for the first quarter.

The U.S. current account is expected to be in the black this year. In the first quarter of this year the account was still in the red, but in the second quarter, there was a surplus of about $ 5 billion at an annual rate.

Thirdly, in a survey of purchasing managers by the National Association of Purchasing Management Inc., it was found that 16 percent reported they had more new orders in July than in June. That was a gain from the June level when only 5 percent reported more new orders. Also, 51 percent reported that their inventories were lower in July than in June.

Fourth, retail sales actually went up in July. Such sales showed a seasonally adjusted gain over June of 2 percent. During the first four months of the year these sales were down. Now, there has been two straight months of gains. When July of this year is compared to July of 1979, total retail sales show a gain of 5.5 percent.

Fifth, it is good news of a very solid nature to note that durable orders went up in July. These new orders by manufacturers went up to a seasonally adjusted rate of $ 72 billion from the June level of roughly $ 66 billion.

In the sixth place, housing starts rose again. In July, housing starts went up by 4.8 percent from the June level, seasonally adjusted. Still, that was about 28 percent lower than the level for July in the prior year. Some journalists have exaggerated the good news and given an overly optimistic tone to the economic scene. As an antidote to the gloom and bad spirits of some economists, it is pleasant to swallow. However, the "patient" is not fully recovered and needs more time for recovery.

Building outlays went down in June. Construction spending in that month was off from the prior month by 2.3 percent. That was less than the May-to-June drop of 2.8 percent. The June level was 4.7 percent below the year-earlier rate.

The factory operating rate in July was at the lowest rate since July of 1975. This July, factories were operating at 74.2 percent of capacity. The June rate was 75.8.

Auto output is still in a slump. In July, auto output of American cars was down by almost 29 percent from the year-earlier level. In the first 10 days of August, sales of domestic cars were off by 31 percent from the comparable 1979 level. That was about what had been expected. One car maker showed a gain. It is thought provoking to note that is was Volkswagen of America Inc.

Plans for auto production are at the lowest level they have been since well before the recession of 1974-5. During the fourth quarter, plans calls for production of about 1.7 million cars. That is about 6 percent lower than the rate (which was low itself) in the last quarter of last year.

Perhaps, there is comfort in looking on the bright side of the latest Transportation Department report on small car safety. Crash tests done at 35 miles per hour into fixed barriers showed that the U.S. compacts were safer than 10 of the 11 foreign cars tested. Joan Claybrook noted that U.S. models were generally made stronger structurally. She was quite critical of two Toyota models. The only foreign car that passed the test was the Fiat Strada. The only domestic car tested, a Chevrolet Chevette, 1980 model, also passes the test. This means the passenger compartment remained intact after the crash. (That could help sales eventually. Who wants their nose or kneecaps rearranged.)

Industrial production was down a seasonally adjusted 1.6 percent in July. That was less than the 2.4 percent average decline in each of the preceding months, but it was the sixth striaght month of decline.

Steel production is still on a low level. For that industry, no significant recovery is seen by KEDI until the second half of 1981.

The forecast here for agricultural production was revised downward in previous issues. As the hot, dry spell continues, additional downward revision is needed. The Agriculture Department has finally revised some of its estimates.

They now see the corn harvest as being about 9 per cent lower this year than last. This Institute had estimated the decline in the last issue as being in the 7 percent range. The government also expected that the cotton crop will be 12 percent lower than last year, soybeans, down 17 percent, and sorghum will fall by about 32 percent. Wheat is unaffected as most was harvested before the drought.

The news is mixed but overall, it points to confirmation of the forecast here for some further improvement of the U.S. overall economic picture in coming months.

1.2 PRICES AND NOMINAL GNP

(Table 1.2 on page 14)

There are no significant changes in this issue regarding prices. The projection is maintained by KEDI that there will be no meaningful drop in the inflation rate this year or next -- sad to say. Do not expect relief from current rates of inflation any earlier than 1982. Recent developments in prices show the continuation of inflationary trends.

Producer prices of finished goods went up at a seasonally adjusted rate of 1.7 percent in July from the June level. Such gains have beeh built into the forecast here since the year 1979. Most of the gain was attributed to advances in consumer food prices. Consumer food prices went up an adjusted 3.8 percent in July. It is not comforting to think that food price inflation has moved in replacing energy price inflation -- for the time being.

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TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1431.7	1444.7	1410.9	1408.9	1418.6	1420.8
Index of Indust. Production	1967= 100	152.2	152.1	144.7	143.5	145.9	146.6
Unemployment Rate	%	5.9	6.1	7.5	8.1	8.0	7.5
Capacity Utilization Rate	%	85.7	85.1	77.0	76.4	78.0	79.1
Private Housing Starts	mil. units	1.721	1.330	1.048	1.160	1.218	1.189
Car Sales	mil. units	10.8	9.5	7.7	7.8	7.8	8.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1420.8	1426.3	1438.2	1453.1	1468.2	1446.5
Index of Indust. Production	1967= 100	146.6	147.6	149.9	151.8	153.9	150.8
Unemployment Rate	%	7.5	7.7	7.2	7.0	6.8	7.2
Capacity Utilization Rate	%	79.1	79.2	81.0	84.0	84.8	82.3
Private Housing Starts	mil. units	1.189	1.143	1.351	1.543	1.495	1.384
Car Sales	mil. units	8.2	8.7	9.5	10.1	10.6	9.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1446.5	1480.1	1498.2	1516.3	1526.4	1505.3
Index of Indust. Production	1967= 100	150.8	156.1	157.6	159.4	160.7	158.5
Unemployment Rate	%	7.2	6.7	6.4	6.2	6.1	6.4
Capacity Utilization Rate	%	82.3	85.8	86.1	86.5	86.8	86.3
Private Housing Starts	mil. units	1.384	1.397	1.623	1.669	1.664	1.588
Car Sales	mil. units	9.7	10.1	11.1	10.8	11.3	10.8

* Historical Data

Farm prices went up by 5.2 percent during July. That was the biggest monthly gain since 1974. The chief economist for the Agriculture Department noted that such a gain seems large, but such prices have been at very low and unprofitable levels for farmers.

The gain in consumer food prices for the next year had been projected in the 8 or 9 percent range by the Agriculture Department. That Department recently indicated that crop damage could add another percentage point to that forecast for the next year. KEDI projection, maintained since June, 1979, shows the 10 percent gain for the next year.

There were analysts that predicted consumer prices would rise at annual rates of gain of perhaps 6 or 7 percent in the latter half of this year. Most have revised such forecasts upward and predict an annual rate of gain for such prices of about 10 percent during the rest of this year.

KEDI maintains its projection of 11 percent inflation rate for 1981 when measured by the Consumer Price Index, and 9.7 percent inflation rate when measured by the Implicit GNP Price Deflator.

1.3 EMPLOYMENT AND LABOR

(Table 1.3 on page 16)

KEDI maintains its forecast of the unemployment rate which is optimistic when compared to some other forecasters. Their predictions of an 8 to 9 percent rate for the rest of this year and during 1981 is seen here as being

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TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	245.0	250.8	256.9	247.3
Producer Price Index, NSA	1967=100	236.2	258.7	263.7	273.8	285.2	270.4
Implicit GNP Price Deflator	1972=100	165.5	174.5	178.9	182.6	186.9	180.7
Gross National Product	bil. $	2369.5	2520.8	2524.6	2572.6	2651.4	2567.4
Personal Cons. Expenditures	bil. $	1510.0	1629.5	1628.6	1673.5	1722.4	1663.5
Gross Private Dom. Investment	bil. $	387.3	387.7	370.3	377.4	393.1	382.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	247.3	261.1	264.6	278.9	284.6	273.6
Producer Price Index, NSA	1967=100	270.4	293.4	298.1	304.6	311.5	301.9
Implicit GNP Price Deflator	1972=100	180.7	190.3	195.3	201.0	206.5	198.3
Gross National Product	bil. $	2567.4	2714.2	2808.8	2920.7	3031.8	2868.9
Personal Cons. Expenditures	bil. $	1663.5	1775.6	1834.3	1908.1	2002.6	1880.2
Gross Private Dom. Investment	bil. $	382.1	406.1	418.7	430.2	445.8	425.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	273.6	292.6	299.8	306.0	312.2	302.7
Producer Price Index, NSA	1967=100	301.9	322.5	328.2	336.6	341.4	332.2
Implicit GNP Price Deflator	1972=100	198.3	208.2	212.4	216.4	220.6	214.4
Gross National Product	bil. $	2868.9	3081.6	3182.2	3281.2	3367.2	3228.1
Personal Cons. Expenditures	bil. $	1880.2	2030.5	2090.4	2150.1	2200.7	2117.9
Gross Private Dom. Investment	bil. $	425.2	452.8	466.7	480.2	492.1	473.0

* Historical Data

too high. The unemployment rate calculated by this Institute will average 7.5 percent this year and will drop to an average of 7.2 percent in 1981.

Some forecasters are beginning to adopt the view that has been maintained here. The unemployment rate did not go up in July. It remained at the 7.8 percent level prompting a Labor Department economist to speculate on the possibility of a leveling trend. Robert Gough of Data Resources Inc. commented that the stable July rate is strongly connected to the retail sales gain of the prior month which caused employers to hold on to part-time workers. He indicated that if sales continue to gain, the rate of unemployment could stay below the 8.5 percent rate commonly expected. As was stated, this Institute sees the rate going lower.

Total employment went up in July by 0.5 percent to an adjusted 97 million workers. The number unemployed in July was up 2.5 percent from the June level on an adjusted basis to 8.2 million. The average workweek went to 35 hours from the June level of 35.1.

1.3 HOUSING

(Table 1.3 on page 18)

There are some encouraging signs of a bit of growth in the housing industry as both starts and sales rose, but building awards fell and interest rates are an ongoing concern.

In July, housing starts went up by 4.8 percent from the June level. The

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TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	96.6	97.5	97.2
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	93.9	94.5	93.5	93.2	94.2	93.8
Unemployment Rate	%	5.80	6.13	7.46	8.11	8.03	7.45

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.2	98.4	99.3	100.2	101.1	99.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	93.8	95.1	96.0	96.8	98.0	96.5
Unemployment Rate	%	7.45	7.71	7.18	7.04	6.82	7.19

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.3	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.8	101.8	102.9	103.9	105.2	103.5
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	96.5	98.6	99.5	100.5	101.6	100.0
Unemployment Rate	%	7.19	6.71	6.41	6.16	6.09	6.17

* Historical Data

seasonally adjusted annual rate for July was 1.266 million units. These private housing starts were still over 28 percent below the year-earlier level.

In June, new house sales went up by 16 percent from sales in May, seasonally adjusted. Still, the June sales this year of 593,000 new homes is well below last year's annual rate in June of 698,000. The average price of houses this June was $ 77,900. The median price (less anxiety-attack producing to many prospective buyers) was $ 66,800.

Building awards showed an 18 percent decline in June from the year-earlier level. Residential construction was down by 30 percent from the June, 1979, level. Still, June of this year did exceed the May total.

As interest rates began to move upward again late this summer, that exerted a dampening force on home sales. In many cases, mortgage rates have moved up a full percentage point in recent weeks.

KEDI maintains its forecast. As calculations here for total housing starts this year are approximately 1.2 million units. Yes, some of the data are encouraging, but it is still not a situation of clear recovery. For some time, one can expect erratic movements in this sector. A definite recovery will not start before 1981.

1.5 GOVERNMENT BUDGETS

(Table 1.5 on page 20)

As compared with the previous forecast, the main adjustment occurred in the

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TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Single-Family Housing Starts	mil.	1,169	801	669	701	712	721
Multifamily Housing Starts	mil.	.551	529	379	459	506	468
Mobile Home Shipments	mil.	283	257	180	183	195	204
Housing Permits Issued	mil.	1.535	965	885	1026	995	968
Construction Costs-Commerc.	1972=100	180.2	193.5	197.0	198.7	200.6	197 5
Construction Costs-Resident.	1972=100	178.8	192.1	196.4	198.4	203.2	197.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	721	734	798	953	901	847
Multifamily Housing Starts	mil.	468	409	553	590	594	537
Mobile Homes Shipments	mil.	204	211	253	261	272	249
Housing Permits Issued	mil.	968	989	1194	1375	1394	1238
Construction Costs-Commerc.	1972=100	197.5	207.2	214.5	217.6	227.9	216.8
Construction Costs-Resident.	1972=100	197.6	208.7	213.4	218.1	228.5	217.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	847	854	983	1038	1054	972
Multifamily Housing Starts	mil.	537	543	640	631	650	616
Mobile Homes Shipments	mil.	249	264	295	301	285	286
Housing Permits Issued	mil.	1238	1303	1641	1738	1724	1602
Construction Costs-Commerc.	1972=100	216.8	237.3	248.5	254.1	263.5	250.9
Construction Costs-Resident.	1972=100	217.2	238.7	250.4	256.2	265.7	252.8

* Historical Data

projection of the Federal deficit in 1980. KEDI has increased the projected deficit for this calendar year from $ 29.6 to $ 42 billion. For the year 1981, last month's forecasted deficit has been adjusted upwards here by approximately $ .6 billion; and for 1982, by $ 6.0 billion. The reasons for changing the estimates are as follows: the lowering of the estimate of corporate tax accruals in 1981 and upward revision of the forecast of Federal expenditures in 1982.

This Institute's projection of the Federal deficit in fiscal 1981 (which starts in October 1980) is $ 38 billion. That is above the $ 30 billion projected recently by the Congressional Budget Office. The incorporation of Carter's proposals made on August 28, and discussed in section 1.1 of this issue, has been estimated by others as being connected to a deficit of $ 36 billion. As can be seen, the KEDI figure is $ 2 billion higher. It is likely that both the Administration and this Institute will be doing some upward revisions.

The forecast for state and local budgets remains essentially unchanged.

1.6 INCOME

(Table 1.6 on page 23)

In mid-August, it was announced that after-tax profits fells by 18.2 percent during the second quarter from the first quarter level. During the second quarter the profit rate was down by 9 percent from the year-ago figures.

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TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Federal Govt.: Income Taxes	bil. $	225.0	239.9	243.1	241.1	252.0	245.3
Corporate Profit Tax Accruals	bil. $	78.5	86.8	67.3	70.6	77.8	75.6
Surplus./Deficit	bil. $	-11.2	-22.9	-48.0	-54.5	-46.1	-42.9
State and Local Governments: Income Taxes	bil. $	40.7	39.7	40.1	40.9	42.1	40.7
Corporate Profit Tax Accruals	bil. $	14.4	15.6	12.3	12.2	13.1	13.3
Surplus./Deficit	bil. $	24.7	24.6	20.2	19.9	20.8	21.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.: Income Taxes	bil. $	245.3	267.0	285.9	299.4	311.6	291.0
Corporate Profit Tax Accruals	bil. $	75.6	81.3	97.6	101.3	104.2	96.1
Surplus./Deficit	bil. $	-42.9	-40.2	-47.1	-50.2	-46.3	-46.0
State and Local Governments: Income Taxes	bil. $	40.7	43.6	45.4	47.0	48.8	46.2
Corporate Profit Tax Accruals	bil. $	13.3	14.1	15.6	17.7	19.4	16.7
Surplus./Deficit	bil. $	21.4	21.6	23.4	24.1	25.6	23.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.: Income Taxes	bil. $	291.0	321.2	332.8	340.5	347.3	335.5
Corporate Profit Tax Accruals	bil. $	96.1	109.7	118.1	122.5	124.7	118.8
Surplus./Deficit	bil. $	-46.0	-33.2	-29.5	-25.1	-23.4	-27.8
State and Local Governments: Income Taxes	bil. $	46.2	50.8	51.9	54.1	56.3	53.3
Corporate Profit Tax Accruals	bil. $	16.7	22.7	24.8	26.0	27.8	25.3
Surplus./Deficit	bil. $	23.7	26.3	28.4	29.7	30.5	28.7

* Historical Data

That decline was unexpected. This Institute estimates that the previous forecast here for such profits was in error due to underestimating the large bite that the windfall profits tax would take. Economists from Chase Econometrics, Data Resources Inc. and Evans Economics all agreed that corporate profits will continue to decline during the rest of this year, but not at such a high rate of decline. This Institute has a somewhat different projection.

The major adjustment in this forecast, when compared to the previous one, is in corporate profits due to reasons covered in the previous paragraph. The new projection shows that third quarter corporate profits will be roughly in line with the second quarter. Unlike the three forecasters cited earlier, however, it is anticipated here that there will be a slight upturn in such profits during the fourth quarter. Towards the middle of 1981, a more normal level of profits will be achieved.

The KEDI projection of corporate profits by industries shows that during this year the main profit makers will be petroleum products, banks, textiles, utilities, machinery, retail stores, food industry, mining, nonferrous metals production and electrical equipment.

The main losers are predicted to the automobile industry, steel and iron, building materials and supplies, the rubber industry, plastics and synthetic materials and chemicals.

Personal income went up in July by an adjusted 1.4 per cent from the total in the prior month. The gain was due mostly to the cost-of-living increases in Social Security payments and other social programs, and higher totals for unemployment payments.

It is realistic to note that disposable income, after adjusting for inflation, was down by 2.2 percent from January through May (latest available).

The KEDI's projection shows that this unfavorable trend will continue throughout the rest of the year and 1981.

1.7 MONEY AND CREDIT

(Table 1.7 on page 25)

The fourth assumption (on page 6) made here for many months concerning long-term Federal Reserve policy comes to mind when pleasantly pondering the mid-August Senate Banking Committee recommendation that the Federal Reserve set long-term growth targets for the money supply.

The projections here concerning the money supply remains basically unchanged. There has been insignificant adjustment in the commercial and industrial loans, mortgages, and certificate of deposits indicators. The extent of the drop in consumer credit has been anticipated here.

June was the third straight month to show a decline from the prior month in the amount of consumer installment credit outstanding. Such credit was down an adjusted annual rate of 13.5 percent between May and June.

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TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Personal Income	bil. $	1924.2	2057.4	2078.5	2102.7	2159.0	2099.7
Personal Dispos. Income	bil. $	1624.1	1737.4	1755.0	1784.7	1834.8	1777.9
Compensation of Employees	bil. $	1459.5	1555.2	1562.1	1591.4	1652.9	1590.4
Corp. Profits After Tax	bil. $	144.6	158.0	129.3	130.7	136.8	138.1
Personal Saving	bil. $	73.2	64.4	83.6	81.7	84.5	78.6
Average Weekly Earnings	$	218.7	225.2	226.0	228.7	231.4	235.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil. $	2099.7	2214.1	2287.6	2396.2	2479.2	2344.3
Personal Dispos. Income	bil. $	1777.9	1874.8	1928.8	2029.3	2099.3	1983.1
Compensation of Employees	bil. $	1590.4	1703.8	1756.6	1856.8	1927.8	1811.3
Corp. Profits After Tax	bil. $	138.1	145.9	153.7	169.5	175.1	161.1
Personal Saving	bil. $	78.6	83.2	82.8	83.9	82.7	83.2
Average Weekly Earnings	$	235.3	234.2	238.5	240.3	245.2	239.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2344.3	2504.3	2590.2	2670.3	2728.6	2623.4
Personal Dispos. Income	bil. $	1983.1	2115.8	2188.5	2254.1	2310.0	2217.1
Compensation of Employees	bil. $	1811.3	1949.9	2028.6	2092.1	2168.1	2059.7
Corp. Profits After Tax	bil. $	161.1	178.4	180.6	183.1	185.2	181.8
Personal Saving	bil. $	83.2	85.3	90.2	93.5	27.4	74.1
Average Weekly Earnings	$	239.6	248.7	251.6	256.7	262.4	254.9

* Historical Data

The last of the credit restraints originally imposed in mid-March were eliminated in early July -- thank goodness.

The reader of previous issues knows that KEDI has always felt that March action was a case of action far in excess of the need for it. It was a case of "overkill" if there ever was one. Economists are speculating as to whether the final elimination of the credit restraints will lead to some growth in credit buying later this year. This Institute predicts that there will be growth. The reader is invited to look at the quarterly data on consumer credit contained in Table 1.7 on page 25 .

KEDI has not changed the assumption that the Federal Reserve will tighten credit but it will not be before the end of this year, because tightening of monetary and credit policies at this time would prolong the present slump in the economy.

Since the middle of the year, the basic money supply, M1-A, has jumped at an annual rate of 13.8 percent. That is almost twice the target set by the Fed's for the third quarter. This Institute does not anticipate that such growth rates will necessitate the tightening of the monetary policy in coming months.

1.8 INTEREST RATES AND YIELDS

(Table 1.8 on page 26)

The recent increases in interest rates show defi[illegible]ly, that the time of declines in interest rates is over. That corresponds precisely with the

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TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979*	1982				1980
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	374.8	371.2	382.9	391.7	380.2
Time Deposits, Adjusted, M2	bil. $	1471.4	1543.6	1570.1	1596.4	1616.8	1581.7
Consumer Instal. Credit	bil. $	311.1	307.6	301.1	302.0	306.9	306.9
Commerc. and Ind. Loans at Banks	bil. $	290.5	302.7	301.7	303.2	308.3	308.3
Negotiable Cert. of Deposits	bil. $	115.6	117.2	121.4	122.8	126.7	126.7
Mortgages at S & L Assns.	bil. $	475.8	479.3	479.1	480.2	485.6	485.6

Indicator	Unit	1980	1982				1981
			1	2	3		
Currency + Demand Deposits, M1A	bil. $	380.2	396.8	409.5	416.8	423.4	411.6
Time Deposits, Adjusted, M2	bil. $	1581.7	1674.3	1705.8	1731.3	1739.8	1712.8
Consumer Instal. Credit	bil. $	306.9	310.1	314.8	317.6	324.5	324.5
Commerc. and Ind. Loans at Banks	bil. $	308.3	314.0	318.9	326.3	329.5	329.5
Negotiable Cert. of Deposits	bil. $	126.7	129.2	130.8	133.4	135.8	135.8
Mortgages at S & L Assns.	bil. $	485.6	491.3	506.0	513.4	520.5	520.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	411.6	426.9	430.7	437.8	445.3	445.3
Time Deposits, Adjusted, M2	bil. $	1712.8	1749.7	1769.2	1790.4	1807.1	1777.4
Consumer Instal. Credit	bil. $	324.5	330.1	335.6	341.2	348.6	348.6
Commerc. and Ind. Loans at Banks	bil. $	329.5	332.1	338.9	343.6	349.0	349.0
Negotiable Cert. of Deposits	bil. $	135.8	139.3	143.1	146.8	151.2	151.2
Mortgages at S & L Assns.	bil. $	520.5	531.1	541.9	559.8	573.1	573.1

* Historical Data

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TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.19	13.35	9.97	9.11	9.69	10.50
Prime Rate	%	12.76	16.39	15.74	11.24	11.36	13.68
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.89	11.26	12.66
Aaa Bonds Rate	%	9.63	12.14	11.05	10.83	10.91	11.23
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.34	10.38	10.62
Standard & Poor's 500 Average	1941 - 43=100	102.83	110.30	108.40	103.65	103.27	106.41

Indicator	Unit	1980	1981				1981
			1	2	3		
3 mo Treas. Bills Rate (new issues)	%	10.53	9.84	10.13	10.29	10.06	10.08
Prime Rate	%	13.68	11.42	11.56	11.72	11.87	11.64
Mortgage Rate, New Homes	%	12.66	11.28	11.32	11.51	11.52	11.41
Aaa Bonds Rate	%	11.23	10.26	10.90	10.67	11.28	11.78
Long Term Govt. Bonds Yield	%	10.62	10.25	10.20	10.46	10.65	10.42
Standard & Poor's 500 Average	1941 - 43=100	106.41	103.98	105.78	109.01	111.53	107.58

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.08	10.24	11.08	11.56	11.77	11.16
Prime Rate	%	11.64	11.70	11.46	11.19	11.53	11.47
Mortgage Rate, New Homes	%	11.41	11.43	11.30	10.95	10.36	10.01
Aaa Bonds Rate	%	11.78	11.24	10.86	10.40	10.12	10.66
Long Term Govt. Bonds Yield	%	10.42	10.30	10.21	10.18	10.33	10.26
Standard & Poor's 500 Average	1941 - 43=100	107.58	108.27	101.54	105.16	108.23	105.80

* Historical Data

KEDI prediction that interest rates will have to go up. (KEDI has been one of the few agencies with such a forecast.)

The KEDI projection of the stock market also remains essentially unchanged: some decline in prices of stocks are expected to take place in the coming months. They will not be dramatic. Recovery will take place at the end of this year. Leveling of the stock market is expected throughout 1981 and more significant increases in 1982.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, GNP in constant 1972 dollars for the second quarter 1980 has been selected for comparison. Actual data have been communicated by the U.S. Department of Commerce, Bureau of Economic Analysis. Forecast data are from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond, Va., February 1980, Library of Congress Catalogue Card No: 75-189493. The table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

GROSS NATIONAL PRODUCT

(in billions of constant 1972 dollars, seasonally adjusted at annual rates, 2nd quarter 1980)

Actual: 1410.9

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Manufacturers Hanover Trust	20	1422.5	+.8

(Table 2.0 cont.)

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Chemical Bank	21	1421.8	+.8
The First National Bank of Chicago	22	1393.0	-1.3
American Statistical Assn. and National Bureau of Economic Research	23	1400.4	-.7
Georgia State University	24	1400.1	-.8
Peter L. Bernstein, Inc.	25	1407.0	-.3
The UCLA National Business Forecast	26	1397.2	-1.0
Cyrus J. Lawrence, Incorporated	27	1397.1	-1.0
Wharton Econometric Forecasting Assoc.	27	1412.0	+.1
Bankers Trust Company	28	1395.3	-1.1
WGN Continental Broadcasting Company	28	1389.5	-1.5
Goldman Sachs	29	1421.0	+.7
The Fidelity Bank	30	1407.0	-.3
KEDI	31	1418.9	+.6
U.S. News and World Report	32	1388.6	-1.4
Data Resources, Inc.	33	1420.9	+.7
Equitable Life Assurance Society	34	1424.0	+.9
Morgan Guaranty Trust Company	35	1413.2	+.2
Argus Research Corporation	36	1412.8	+1.3